

Juniper Networks, Inc. (JNPR)

\$24.50 (As of 12/30/19)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

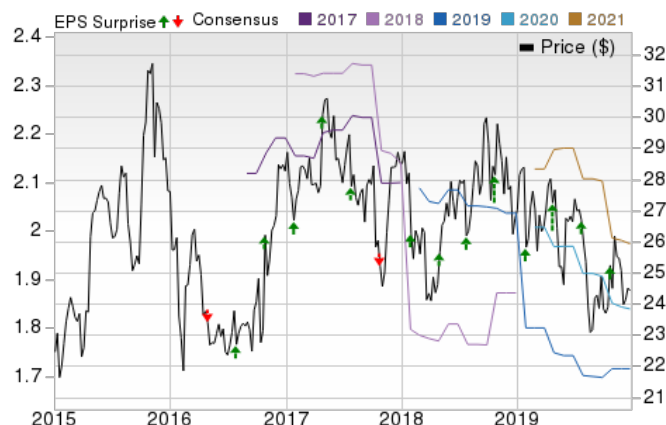
Growth: D

Momentum: D

Summary

Juniper remains focused on product launches and cost reduction initiatives. The company is optimistic about new and expanding partnerships with firms like Nutanix and Ericsson, which will likely provide a competitive edge over alternative offerings in the global market. Its 400-gig product and Contrail Enterprise Multicloud are particularly aimed at reinforcing its ability to capture data centric footprint in the cloud domain. However, uncertain global macro environment and potentially weak investment patterns among customers remain major headwinds. It faces intense competition in each of its served markets for premium branded products. Strategic business relationship with federal, state and local governments exposes Juniper to stringent budget activities of the U.S. government, which adversely affect its business dynamics.

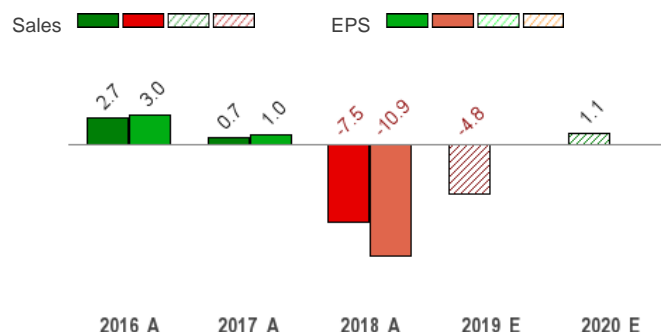
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.77 - \$22.42
20 Day Average Volume (sh)	3,392,051
Market Cap	\$8.2 B
YTD Price Change	-9.0%
Beta	0.98
Dividend / Div Yld	\$0.76 / 3.1%
Industry	Wireless Equipment
Zacks Industry Rank	Top 19% (47 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/27/2020
Earnings ESP	0.0%
P/E TTM	14.2
P/E F1	14.2
PEG F1	2.3
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,027 E	1,105 E	1,144 E	1,210 E	4,476 E
2019	1,002 A	1,103 A	1,133 A	1,190 E	4,427 E
2018	1,083 A	1,204 A	1,180 A	1,181 A	4,648 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.58 E	\$0.32 E	\$0.44 E	\$0.49 E	\$1.72 E
2019	\$0.26 A	\$0.40 A	\$0.48 A	\$0.46 E	
2018	\$0.28 A	\$0.48 A	\$0.54 A	\$0.59 A	\$1.88 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/30/2019. The reports text is as of 12/31/2019.

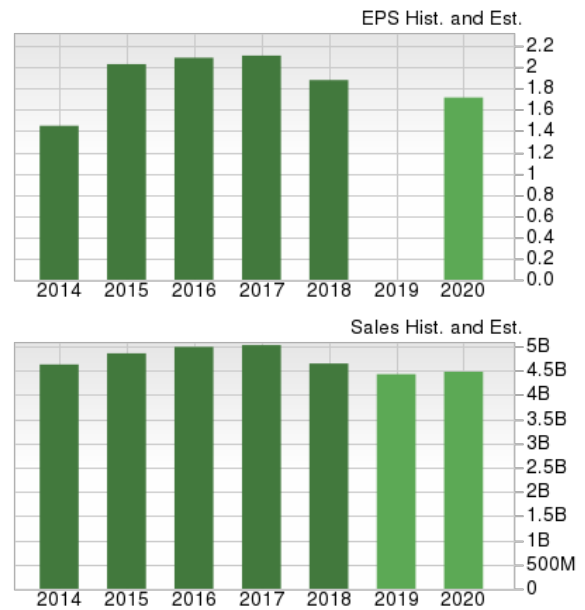
Overview

Juniper Networks, Inc. is a leading provider of networking solutions and communication devices. The company develops, designs and sells products that help to build network infrastructure used for services and applications based on single Internet protocol network worldwide. The company caters to the networking needs of enterprises and public sector organizations and service providers across the globe. Hence, the two primary markets for its networking products and services happen to be Enterprise and Service Provider.

Juniper offers a broad range of routing, switching and security products. Routing includes products and services from the E, M, MX, PTX, T Series, and ACX router families. Switching primarily consists of products and services for EX Series and wireless local area network solutions as well as QFabric. Security includes High-End SRX services and vGW Virtual Gateways, High-End Firewall virtual private network (VPN) systems and appliances, branch SRX, branch firewall, and J-Series product families, secure socket layer VPN appliances, intrusion detection and prevention appliances, and wide area network optimization platforms.

Per Juniper's integrated operating plan (IOP) formulated in February 2014, the company has realigned the organization into a One-Juniper structure. The company reports under two segments — Total Product (comprises Routing, Switching and Security products) and Total Services.

Product (65.6% of third-quarter 2019 total net revenues) includes revenues from networking product sales and from sales made through distribution channels. **Service** (34.4%) includes revenues generated from maintenance, training and other professional services.



Reasons To Buy:

- ▲ Despite some short-term challenges, particularly within the service provider vertical, Juniper expects encouraging developments in most areas of its business that augur well for its long-term growth. The company has made significant changes to its go-to-market structure to better align its sales strategies to each of its core customer verticals. It is on the verge of introducing several new products over the next few quarters, which are expected to further strengthen its competitive position across service provider, cloud and enterprise market. Offerings include new MX line card that will strengthen its ability to capitalize on carrier 5G initiatives, new 400-gig platform that will improve its ability to capture data centric footprint particularly in the cloud, and new enhancement to its Contrail Enterprise Multicloud platform that will help its mid to large enterprise customers transition to a multicloud world with increased simplicity and reduced cost. It is also planning to introduce new silicon photonics capability that will likely enhance its competitive position. It believes the 400-gig upgrade cycle, 5G deployment and enterprise multicloud initiatives hold huge opportunities where it is well-positioned to benefit over the next several years.
- ▲ Juniper is introducing the industry's first 400-gig product and is well positioned to gain incremental market share as cloud, service provider and enterprise customers look to meet surging bandwidth requirements. The company is set to capitalize on the growing demand for data center virtualization, cloud computing and mobile traffic packet/optical convergence. It is offering new suites of products such as the T4000 core router, QFX data center platform, ACX and PTX packet/optical solution among others. With the growing usage of smartphones and tablets, mobile data traffic has gone up. This has resulted in growing demand for advanced networking architecture, in turn leading service providers to spend more on routers and switches. Juniper is expected to benefit from the higher spending pattern among carriers to upgrade their networks to support the incremental growth in data traffic. Increased spending from AT&T and Verizon — Juniper's two large customers — are expected to aid its top line, going forward. We believe Juniper's new products will be able to meet the escalating needs and thereby find easy acceptance among customers.
- ▲ Juniper is excited about new and expanding partnerships with firms like Nutanix and Ericsson as this will provide competitive edge over alternative offerings. The company has been successful at developing global channel partners and strategic reseller relationships with Ericsson, International Business Machines Corporation and Nokia Siemens Networks. In addition, it has worked with more than 9,000 channel partners to reach customers globally. The company created the J-Partner program for its preferred reseller and alliance partners. It has also developed partnerships with market leaders, such as Avaya Inc., Microsoft Corporation, NEC and Symantec Corporation. Apart from this, Juniper and IBM entered into an Original Equipment Manufacturer agreement, according to which IBM will provide Juniper's Ethernet networking products and support as part of its data center portfolio of products. Juniper has also collaborated with VMware to provide private cloud-based solutions across the APAC region. Through this collaboration, Juniper will combine its MetaFabric architecture with VMware's NSX network virtualization platform that provides private cloud-based services. These partnerships will enhance its networking technology ultimately helping companies to transfer an enormous amount of data through different networks.

Juniper's new product launches and cost reduction initiatives remain encouraging. Expansion into the SDN segment is expected to strengthen the company's position in the networking space.

Reasons To Sell:

- ▼ Uncertain global macro environment and anticipation of potentially weak investment patterns among customers remain major headwinds for Juniper. In the third quarter of 2019, net revenues from service provider unit were down 17% year over year to \$452.5 million, due to ongoing challenges many of the company's carrier customers are facing. Lower-than-expected business in the service provider vertical along with decline in average selling price of products will likely hinder Juniper's top-line growth.
- ▼ One of the primary markets that Juniper serves is Enterprise, which comprises large businesses; federal, state and local governments; and research and education institutions. Therefore, the company is widely exposed to the stringent budget activities of the U.S. government, which adversely affect its fundamentals. Moreover, Juniper could lose share in the core router market as competition creeps up. The company, together with Cisco, serves almost 80% of the core router market and enjoys the second position in the same. However, Alcatel-Lucent has now entered the market with its Extensible Routing System (XRS) 7950 family of core routers. Juniper's competitors are also revamping their product lines with faster and power-efficient options. Although the edge business remains strong (helped by the MX line), the competitive pressure at the core remains intense.
- ▼ Juniper faces stiff competition in each of its served markets especially from industry leader Cisco Systems, which has traditionally spearheaded innovation, charging higher prices for its premium branded products and expanding margins. It is worth mentioning that Cisco's recent acquisition of cyber-security solutions provider Sourcefire could be an added pressure on Juniper's security business. Despite having a strong security portfolio (SRX Platform & Security Software, Screen OS and other Legacy products), Juniper has not been performing well for the past few quarters, due to lower-than-expected demand for non-Junos-based security products. Moreover, poor performance by the Junos business prompted the company to sell off the mobile security unit.

Uncertain global macro environment and anticipation of potentially weak investment patterns remain major headwinds. Stiff competition and consolidation in the telecom industry also remain concerns.

Last Earnings Report

Juniper Q3 Earnings Beat Estimates, Revenues Down Y/Y

Juniper reported mixed third-quarter 2019 financial results, wherein the bottom line topped the Zacks Consensus Estimate but the top line missed the same. Both earnings and revenues decreased on a year-over-year basis.

Net Income

On a GAAP basis, net income for the September quarter declined to \$99.3 million or 29 cents per share from \$223.8 million or 64 cents per share posted in the prior-year quarter, primarily due to provision for income tax.

Non-GAAP net income was \$166.6 million or 48 cents per share compared with \$191 million or 54 cents per share reported a year ago. The bottom line beat the Zacks Consensus Estimate by 2 cents.

Revenues

Quarterly total net revenues were \$1,133.1 million (slightly below the midpoint of the company's guidance range) compared with \$1,179.8 million reported in the prior-year quarter. This was due to weaker-than-expected trends within its service provider business. Challenges within this vertical more than offset healthy cloud and enterprise sales, both of which grew year over year. The top line lagged the consensus estimate of \$1,142 million.

Product revenues (comprising Routing, Switching and Security, and accounting for 65.6% of total net revenues) for the quarter decreased 6.5% year over year to \$743.2 million due to lower routing business. **Service** revenues (accounting for 34.4% of total net revenues) were up 1.2% to \$389.9 million.

By vertical, net revenues from Cloud business increased 5.8% year over year to \$271.9 million, reflecting momentum within Juniper's customers' wide area network, particularly from some of its switching products. Net revenues from Service Provider unit were down 17% to \$452.5 million, due to ongoing challenges many of the company's carrier customers are facing.

Net revenues from Enterprise business increased to \$408.7 million from \$377.4 million. However, the company experienced a deceleration in order toward the end of the reported quarter, which is leading it to moderate its expectations for the rest of 2019. This slowdown was due to lingering effects associated with the sales transformation actions Juniper took earlier this year and weakening in the customer spending environment.

Geographically, net revenues declined to \$301.5 million from \$329.9 million in Europe, Middle East, and Africa. Quarterly revenues in the Americas increased 0.9% year over year to \$648.8 million. For Asia Pacific, net revenues decreased 11.6% to \$182.8 million.

Other Details

Gross profit came in at \$678.4 million compared with \$711 million in the year-ago quarter primarily due to lower revenues. Total operating expenses decreased from \$550.9 million to \$539.9 million. Operating income was \$138.5 million compared with \$160.1 million. Non-GAAP operating income declined to \$207.3 million from \$235.4 million, with margin of 18.3% and 20%, respectively.

Concurrent with quarterly results, Juniper communicated that its board of directors has approved a \$1 billion stock buyback authorization increase. This adds to the existing buyback authorization, which has \$900 million remaining for a total of \$1.9 billion. The company also plans to enter a \$200 million accelerated share repurchase program in the ongoing quarter.

Cash Flow & Liquidity

During the first nine months of 2019, Juniper generated \$433.2 million of net cash from operations compared with \$648.7 million in the year-ago period. As of Sep 30, 2019, the computer network equipment maker had \$1,204.8 million in cash and equivalents with \$1,687.6 million of long-term debt.

Q4 Outlook

Juniper has provided guidance for fourth-quarter 2019. The company expects to witness business challenges at some of its largest service provider customers, lingering impacts from its sales force transformation and macro-economic uncertainty. It anticipates revenues of \$1,185 million (+/- \$30 million). Non-GAAP gross margin is projected to be around 61% (+/- 1%), which indicates the increase in China tariffs.

Non-GAAP operating expenses are expected to be nearly \$485 million (+/- \$5 million). The company expects non-GAAP operating margin to be around 20.1% at the midpoint of revenue guidance. Non-GAAP net income is anticipated to be approximately 57 cents per share (+/- 3 cents), assuming a share count of almost 340 million. Non-GAAP tax rate is likely to be 17%, due to the anticipated reduction in India's corporate tax rate.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-0.80%
EPS Surprise	4.35%
Quarterly EPS	0.48
Annual EPS (TTM)	1.73

Recent News

On Dec 3, 2019, Juniper announced that it has collaborated with Russia's largest digital services provider — Rostelecom — to reinforce large-scale modernization of communication transport solutions across Russia. The infrastructure upgrade will be implemented with the help of Juniper Networks' MX Series 5G Universal Routing Platform and PTX Series Packet Transport Routers. With the installation of Juniper's MX960 and PTX10008, the Russian digital service provider has successfully curbed its operational expenses due to lower power consumption and improved network efficiency.

On Dec 2, 2019, Juniper announced that it has been selected by Orange Poland, a leading Polish telecommunication provider, to amplify the resilience and automation capabilities of its IP network core. Financial terms of the deal remained undisclosed. With more than 20 million customers across mobile, FTTH, DSL and fixed telephony, Orange Poland has been assessing ways to improve its network's performance. It aims to meet the increasing demand of its fixed and mobile network users, particularly in preparation for the roll out of 5G. By implementing Juniper's intelligent automation tools, telecommunication providers can deliver savings in network operations and better deploy network resources.

On Nov 22, 2019, Juniper announced that it has reached a significant milestone with the deployment of 400 Gigabit per second Ethernet network between Denver and Chicago. The company provided top-notch equipment and services to meet the supercomputing requirements in the conference for networking and analysis — SC19. The trial, conducted in collaboration with SCinet, the largest supercomputer center in Canada, plays a pivotal role in the establishment of an agile digital infrastructure. It is likely to cater to the burgeoning connectivity requirements of the supercomputing community as leading telecom firms transition from traditional networks to secure AI-driven networks. The deployment leverages Juniper's first fixed-configuration core router — PTX10003 Packet Transport Router — to transmit large volume of data for the betterment of global research and education communities.

On Nov 11, 2019, Juniper announced that it has advanced its global partner program — Juniper Partner Advantage 2020 — in a way that helps fuel its business. With this enhancement, the company intends to support its partners drive growth through additional business and customer expansion while simplifying operations. Notably, the specialization program provides partners with the tools required to tap on major growth trends in the enterprise through foreseeable revenue sources. Juniper's new program includes investment in business transformation for regular software-based revenue models, a new managed services program, modernized sales and technical training, and increased rewards for selling AI-driven enterprise solutions.

On Oct 24, 2019, Juniper announced that its board of directors has approved a \$1 billion stock buyback authorization increase. This adds to the existing buyback authorization, which has \$900 million remaining for a total of \$1.9 billion. The company also plans to enter a \$200 million accelerated share repurchase program in the ongoing quarter.

Valuation

Juniper shares are down 9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 23.5% and 33.8%, respectively.

The S&P 500 index is up 28% over the trailing 12-month period.

The stock is currently trading at 10.74X trailing 12-month EV/EBITDA, which compares to 22.38X for the Zacks sub-industry, 12.10X for the Zacks sector and 12.01X for the S&P 500 index.

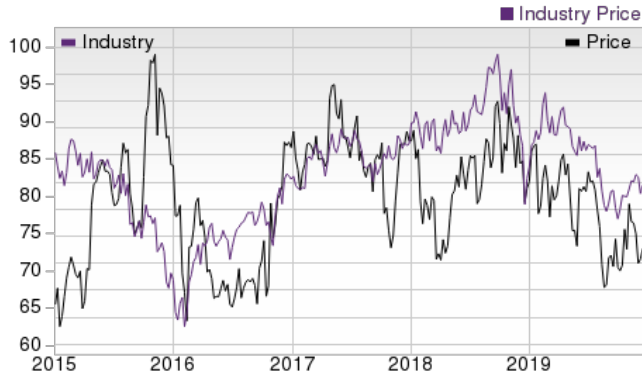
Over the past five years, the stock has traded as high as 12.9X and as low as 5.6X, with a 5-year median of 8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 1.95X forward 12-month earnings.

The table below shows summary valuation data for JNPR

Valuation Multiples - JNPR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.74	22.38	12.1	12.01
	5-Year High	12.87	25.55	12.59	12.86
	5-Year Low	5.62	10.1	7.68	8.49
	5-Year Median	8	15.75	10.5	10.65
P/E F12M	Current	13.32	19.89	22.14	18.77
	5-Year High	23.32	30.47	22.14	19.34
	5-Year Low	12.24	13.61	16.86	15.17
	5-Year Median	17.19	18.01	19.11	17.44
P/S F12M	Current	1.83	3.23	3.44	3.41
	5-Year High	2.49	3.51	3.45	3.41
	5-Year Low	1.65	2.07	2.29	2.54
	5-Year Median	2.02	2.78	2.99	3

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 253)



Top Peers

Acacia Communications, Inc. (ACIA)	Outperform
Ciena Corporation (CIEN)	Neutral
CommScope Holding Company, Inc. (COMM)	Neutral
Exponent, Inc. (EXPO)	Neutral
Nokia Corporation (NOK)	Neutral
Zayo Group Holdings, Inc. (ZAYO)	Neutral
ADTRAN, Inc. (ADTN)	Underperform
Arista Networks, Inc. (ANET)	Underperform

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	JNPR Neutral	X Industry	S&P 500	ADTN Underperform	COMM Neutral	ZAYO Neutral
VGM Score	D	-	-	F	A	D
Market Cap	8.20 B	264.42 M	23.80 B	470.13 M	2.69 B	8.20 B
# of Analysts		1	13			3
Dividend Yield	3.10%	0.00%	1.78%	3.66%	0.00%	0.00%
Value Score	B	-	-	D	A	D
Cash/Price	0.27	0.21	0.04	0.27	0.22	0.03
EV/EBITDA	10.50	12.65	13.88	-20.30	15.81	14.27
PEG Ratio	2.30	3.47	2.13	32.77	0.55	15.11
Price/Book (P/B)	1.83	2.12	3.33	1.19	2.22	5.96
Price/Cash Flow (P/CF)	12.19	15.70	13.55	NA	3.46	12.92
P/E (F1)	14.24	21.44	19.62	163.83	6.83	55.54
Price/Sales (P/S)	1.86	1.75	2.66	0.85	0.38	3.18
Earnings Yield	7.02%	4.19%	5.09%	0.61%	14.66%	1.79%
Debt/Equity	0.40	0.25	0.71	0.00	8.34	4.56
Cash Flow (\$/share)	2.01	0.53	6.94	-0.14	4.00	2.68
Growth Score	D	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	2.86%	-5.87%	10.48%	-10.22%	0.99%	60.85%
Proj. EPS Growth (F1/F0)	-8.74%	17.21%	6.14%	117.14%	-10.65%	0.54%
Curr. Cash Flow Growth	-22.13%	-17.74%	14.75%	-111.13%	-0.93%	-16.96%
Hist. Cash Flow Growth (3-5 yrs)	1.14%	6.65%	8.93%	NA	8.68%	44.27%
Current Ratio	2.24	1.90	1.24	2.73	1.86	0.61
Debt/Capital	28.51%	25.49%	42.92%	0.00%	90.16%	82.03%
Net Margin	8.35%	-0.72%	11.06%	-8.79%	-7.26%	5.66%
Return on Equity	9.54%	1.07%	17.10%	-0.57%	27.25%	11.34%
Sales/Assets	0.49	0.78	0.54	0.89	0.59	0.27
Proj. Sales Growth (F1/F0)	-4.74%	-0.41%	2.49%	-0.44%	82.65%	0.84%
Momentum Score	D	-	-	D	B	F
Daily Price Chg	0.37%	-0.05%	0.21%	0.87%	-0.72%	0.09%
1 Week Price Chg	-0.37%	0.00%	1.46%	3.23%	1.23%	0.00%
4 Week Price Chg	-1.13%	-0.82%	1.98%	8.26%	3.67%	1.23%
12 Week Price Chg	3.29%	-0.53%	9.78%	-13.01%	23.88%	2.00%
52 Week Price Chg	-8.96%	2.21%	28.47%	-8.47%	-15.50%	51.58%
20 Day Average Volume	3,392,051	77,132	1,778,443	239,474	2,587,832	2,916,846
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-9.66%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-11.96%
(F1) EPS Est 12 week change	-2.00%	1.72%	0.12%	-132.14%	-2.58%	-16.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	1.00%	-5.26%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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